Optimal monetary policy with menu costs is nominal wage targeting

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Abstract

We show analytically that ensuring stable nominal wage growth is the optimal monetary policy in a multisector economy with menu costs. This *nominal wage targeting* contrasts with inflation targeting, the optimal policy prescribed by the textbook one-sector New Keynesian model in which firms can only randomly adjust their prices. Finally, we show that the analytical result that nominal wage targeting is superior to inflation targeting carries over in a rich quantitative model.